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Letter dated 2 May 2018 from the Secretary-General addressed to the President of the Security Council

Pursuant to Security Council resolution 1031 (1995), I have the honour to transmit the fifty-third report on the implementation of the Peace Agreement on Bosnia and Herzegovina, covering the period from 22 October 2017 to 21 April 2018, which I received from the High Representative for Bosnia and Herzegovina (see annex).

I should be grateful if you could bring this report to the attention of the members of the Security Council.

(*Signed*) Antonio **Guterres**

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Annex

Letter dated 26 April 2018 from the High Representative for Bosnia and Herzegovina addressed to the Secretary-General

Pursuant to Security Council resolution 1031 (1995), which requested the Secretary-General to submit to the Council reports from the High Representative in accordance with annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith transmit the fifty-third report of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina. I would kindly ask for this report to be distributed to the Security Council members for their consideration.

This is my nineteenth regular report to the Secretary-General since assuming the post of High Representative for Bosnia and Herzegovina and European Union Special Representative on 26 March 2009. The present report covers the period from 22 October 2017 to 21 April 2018.

Should you or any Council member require any information beyond what is provided in the attached report or have any questions regarding its contents, I would be pleased to provide you with it.

(*Signed*) Valentin **Inzko**

Fifty-third report of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina

Summary

This report covers the period from 22 October 2017 through 21 April 2018. While the institutions and political leaders in Bosnia and Herzegovina have managed to deliver incremental progress on some of their commitments related to Euro-Atlantic integration processes, the last six months have also seen a notable deterioration in terms of divisive public rhetoric and respect for the rule of law within the country. Crucial domestic issues related to the Bosnia and Herzegovina Election Law and the Criminal Procedure Code have remained unresolved, as many parties in authority are focused on consolidating power and playing to their respective voting bases ahead of the electoral campaign season. In its interim report on Bosnia and Herzegovina published along with the 2018 enlargement package on 17 April, the European Commission similarly noted that tensions between parties had slowed the pace of reform.

Among positive developments, the most notable achievement during the reporting period was the Bosnia and Herzegovina authorities' handover of answers to the European Commission questionnaire in February, an important step in the country's attempts at becoming a European Union candidate country in the future. Another positive development was the adoption of a set of excise laws, which, along with other conditions, resulted in the completion of the International Monetary Fund (IMF) review and approval of the second disbursement of funds under the Extended Fund Facility arrangement, on 9 February.

Other notable developments included the trilateral meeting in March between the Bosnia and Herzegovina Presidency and the presidents of Serbia and Croatia. Also, in February the Financial Action Task Force announced that Bosnia and Herzegovina is no longer subject to special monitoring by the Task Force, having made progress in addressing previously identified strategic deficiencies in its efforts concerning anti-money-laundering and combating the financing of terrorism.

Despite these positive developments, major challenges remain. The next general elections in Bosnia and Herzegovina are expected to take place in October 2018, yet the formation of authorities after the vote could prove extremely difficult if changes to the Election Law are not agreed that would regulate the indirect election of delegates to one of the chambers of the Federation parliament. As previously reported, the Bosnia and Herzegovina Constitutional Court struck down provisions of the law regulating elections to the Federation House of Peoples in July 2017, having declared these parts of the law unconstitutional in its December 2016 decision in the Ljubic case. The failure to constitute the Federation House of Peoples following the elections would prevent the election of the new Federation president and vice-presidents, who are responsible for nominating the new Federation Government, and would also prevent the election of Bosniak and Croat delegates to the Bosnia and Herzegovina House of Peoples, one of the two houses of the state-level parliament.

With the announcement of elections expected in May and the elections themselves in October, the relevant authorities in Bosnia and Herzegovina must agree on electoral changes that would enable the smooth conduct and implementation of the results of the 2018 general elections. As the Peace Implementation Council Steering Board political directors outlined in their December 2017 communiqué, "as an immediate priority, the 1 December 2016 decision of the Bosnia and Herzegovina

Constitutional Court, which specifically concerns the elections to the Federation House of Peoples, must be implemented, and not made more challenging by combining it with political demands".

An equally pressing issue has arisen concerning the Bosnia and Herzegovina judiciary. In June 2017, the Constitutional Court declared as unconstitutional several provisions of the Bosnia and Herzegovina Criminal Procedure Code regulating special investigative measures in criminal proceedings. As the deadline of six months has passed without the Bosnia and Herzegovina Parliament correcting the issue, the Court could soon rule on non-enforcement, leaving the judiciary without the tools necessary for fighting organized crime and corruption. This would represent a very serious setback to the rule of law.

During the reporting period, I continued to urge the leadership of the Herzegovina-Neretva and some other cantonal assemblies to act to harmonize these cantons' constitutions with a decision of the Bosnia and Herzegovina Constitutional Court from 2000 and with the Federation Constitution, in order to ensure the equality of Serbs as a constituent people, and officially recognize the Serb language and Cyrillic alphabet.

Another cause for concern has been the continuation and escalation of divisive and destabilizing rhetoric from prominent political figures on all sides. For example, continuing a long-term trend, the Republika Srpska President has continued to deny the statehood of Bosnia and Herzegovina and to advocate for the eventual secession of the entity. During the reporting period, public comments were also made glorifying convicted war criminals and calling for the return of a Republika Srpska army. The Croat member of the Bosnia and Herzegovina Presidency has mused about the further internal division of the country, while other Croat politicians have threatened the dissolution of the country if the current electoral issues are not resolved to their satisfaction.

Under the authority vested in me under annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina, I reiterate that the entities have no right to secede from Bosnia and Herzegovina and that the Agreement guarantees the sovereignty and territorial integrity of Bosnia and Herzegovina and the internal constitutional position of the entities.

In addition, I must express my concern over comments made by a number of political figures about the possibility of future conflict if the country were to break apart. These included comments by the Federation Prime Minister about the production of military equipment and subsequent comments by the Bosniak member of the Bosnia and Herzegovina Presidency, which went further, suggesting that a rearming effort was under way in preparation for a hypothetical war scenario. These comments followed controversy earlier in the reporting period about the purchase of long-barrel weapons by the Republika Srpska police.

There is far too much unhelpful and provocative rhetoric in Bosnia and Herzegovina. All public figures must choose their words carefully and responsibly. Bosnia and Herzegovina is a single multi-ethnic sovereign state consisting of two entities, in which all citizens — the three constituent peoples and others — live and work together, and elected officials above all have a responsibility to contribute to peace and reconciliation.

I. Introduction

This is my nineteenth regular report to the Secretary-General since assuming the post of High Representative for Bosnia and Herzegovina in 2009. It provides a narrative description of progress made towards goals outlined in previous reports, registers factual developments, logs relevant citations and provides my impartial assessment of the implementation of the General Framework Agreement for Peace in Bosnia and Herzegovina in key areas within my mandate. I have focused on addressing these areas in line with my responsibility to uphold the civilian aspects of the Agreement. I have thus continued to encourage the Bosnia and Herzegovina authorities to make progress on the five objectives and two conditions necessary for the closure of the Office of the High Representative and worked to preserve measures previously undertaken to implement the Agreement.

I continue to direct my energies towards fulfilling my mandate in accordance with annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina and relevant Security Council resolutions. Additionally, my Office wholeheartedly supports the efforts by the European Union and the North Atlantic Treaty Organization (NATO) to assist Bosnia and Herzegovina in moving forward on closer integration with those bodies.

II. Political update

A. General political environment

The ethno-political division in Bosnia and Herzegovina persists. The long-lasting policy of the Republika Srpska to challenge the state-level institutions has spilled over to the Federation. These ongoing trends, which have strengthened over the years, negatively affect the functionality of the state and Federation authorities and hold back the resolute integration of the country into Euro-Atlantic structures. Although there are several pending issues the authorities in Bosnia and Herzegovina must address, the political parties have already begun their pre-electoral campaigns well ahead of the October 2018 general elections.

At the state and Federation levels, the opposing views of the predominantly Bosniak Party for Democratic Action and the Croat party, the Croatian Democratic Union partners in the ruling coalitions at both levels — over necessary amendments to the Bosnia and Herzegovina Election Law continue to damage relations between them. Meanwhile, their fellow partner, the predominantly Bosniak Party for a Better Future, has threatened to leave the ruling coalitions at both levels and increasingly votes with the opposition. At the Federation level, the Government has been unable to complete appointments to the Federation Tax Administration, while neither house of the Federation Parliament met for more than two months from late January to mid-April.

In the Republika Srpska, after several turbulent sessions of the Republika Srpska National Assembly in the previous period, the ruling coalition and opposition parties made a half-hearted attempt to draft an agreement on cooperation, but owing to the lack of consensus among the parties, no agreement materialized. Although the ruling coalition is effective at moving its agenda forward, it continues to undermine itself through the frequent anti-Dayton and anti-state rhetoric by some of its leading officials.

Authorities at all levels continue to disregard or reject binding decisions of the judiciary, as the Federation-based parties have made little effort on their own towards reaching a political agreement that would address the issue of the Federation House

of Peoples in line with the decision of the Bosnia and Herzegovina Constitutional Court in the Ljubic case. In the city of Mostar, Bosnia and Herzegovina, citizens have not elected local representatives since 2008 because of another unimplemented Constitutional Court decision. For its part, the Republika Srpska continues to reject judgments of both the Bosnia and Herzegovina Constitutional Court and the Bosnia and Herzegovina State Court concerning the registration of defence property and the celebration of "Republika Srpska Day" on 9 January.

Reflecting an overall disregard for the rule of law, authorities have persistently failed to implement European Court of Human Rights' rulings in the *Sejdic & Finci* and related cases, leaving in place discrimination against the right of certain persons to stand for public office.

B. Decisions of the High Representative during the reporting period

Despite ongoing challenges to the rule of law and the General Framework Agreement for Peace in Bosnia and Herzegovina during the reporting period, I have continued to refrain from using my executive powers, in accordance with the policy of the Peace Implementation Council Steering Board emphasizing local ownership over international decision-making.

C. Five objectives and two conditions for closure of the Office of the High Representative

Progress on objectives

During the reporting period, the Bosnia and Herzegovina authorities made limited progress towards meeting the requirements of the 5+2 agenda set by the Peace Implementation Council Steering Board as necessary for the closure of the Office of the High Representative.

State and defence property

The process of registration of prospective defence property under the ownership of the State of Bosnia and Herzegovina continued during the reporting period. The term "prospective defence property" refers to a defined list of immovable assets that are needed by the Bosnia and Herzegovina armed forces and should be registered to the Bosnia and Herzegovina State in accordance with the Bosnia and Herzegovina Constitution, the Agreement on Succession Issues, the Bosnia and Herzegovina Law on Defence and relevant Bosnia and Herzegovina Presidency decisions.

To date, 31 military locations located in the Federation falling under the category of prospective defence property have been successfully registered, 27 to the ownership of the State in relevant land records, and 4 others for use by the Bosnia and Herzegovina Ministry of Defence or the Bosnia and Herzegovina armed forces. There are several additional properties in various phases of the registration process. To their credit, the competent state-level institutions have expedited their efforts to drive this process forward, mainly focused on clarifying and resolving various technical legal difficulties related to some prospective defence locations.

At the same time, the registration process for prospective defence property on the territory of the Republika Srpska remains blocked due to political obstruction. The Republika Srpska Geodetic Administration has rejected several registration requests owing to what it claims is the "non-existence of a valid legal basis". High-ranking Republika Srpska officials have made it clear in public statements that the Republika Srpska authorities have no intention to implement the final and binding

decision of the Bosnia and Herzegovina Court in the case of the prospective defence location in Han Pijesak, in open violation of the principle of the rule of law.

Concerning the issue of non-prospective defence and other state property, the Office of the High Representative remains concerned over violations of the Law on the Temporary Prohibition of Disposal of State Property of Bosnia and Herzegovina, better known as the State Property Disposal Ban. This law was enacted by the High Representative in March 2005 and subsequently adopted by the Bosnia and Herzegovina Parliamentary Assembly on 30 March 2007, with the aim of creating effective measures for protecting the property interests of the State of Bosnia and Herzegovina prior to the enactment of appropriate legislation. However, in the intervening period, it appears that transfers and disposals of state property assets occurred contrary to the provisions of the law, as is the case with several non-prospective defence locations on the territory of the Republika Srpska.

In this regard, it is important to underline that violations of the State Property Disposal Ban, which are null and void under the law, represent a serious challenge to the rule of law and directly damage the established property rights and interests of the State of Bosnia and Herzegovina. Furthermore, such violations may potentially produce numerous legal, practical and financial complications for both parties involved, who falsely believe that they acquired property rights on the basis of such transactions, and for the responsible public institutions. This is why the responsible institutions of Bosnia and Herzegovina must conduct a thorough analysis of all cases in which violations of the ban or other illegal actions or irregularities occurred in relation to disposal and various forms of transfer and allocation of state property assets.

The adoption of comprehensive state-level legislation that fully acknowledges and adopts the principles of the 2012 Bosnia and Herzegovina Constitutional Court decision — which established that the State of Bosnia and Herzegovina is titleholder of all state property and that the Bosnia and Herzegovina Parliamentary Assembly is exclusively responsible for regulating the issue — remains an important and urgent task.

Fiscal sustainability

In accordance with my mandate, including my coordination responsibilities, the Office of the High Representative continued to follow, analyse and report on developments and legislative actions related to fiscal sustainability in Bosnia and Herzegovina. This included monitoring and reporting to the Peace Implementation Council Steering Board on the activities of the Governing Board of the Bosnia and Herzegovina Indirect Taxation Authority, on which the Office of the High Representative is the only representative of the international community, and the Bosnia and Herzegovina Fiscal Council.

While the Indirect Taxation Authority Governing Board met regularly during the reporting period, long-outstanding issues remained unresolved, such as adjustments to revenue distribution coefficients and debt settlements between the entities. At its 22 March meeting, the Board could not agree on a methodology for the allocation of road toll revenues intended for highway and road construction, holding back the disbursement of 64.7 million marka (KM) in accumulated funds, as well as future revenues from road tolls under new excise legislation.

Additionally, the Indirect Taxation Authority faces the enforcement of a 2015 decision of the Bosnia and Herzegovina Court obliging it to pay more than 15 million KM to the Republika Srpska for default interest on Federation debts to the Republika Srpska in 2009 and 2010 (settled in 2011) as well as penalty interest on this amount. The total amount due is now close to 30 million KM. Both the debt itself and the

failure to settle it result from continued entity disputes over indirect tax revenue allocation and their non-compliance with the regulations in force, yet the Indirect Taxation Authority is being held responsible. The enforcement of the court decision is in process and could have serious and far-reaching consequences for the Indirect Taxation Authority and, by extension, fiscal stability in Bosnia and Herzegovina.

The Bosnia and Herzegovina Fiscal Council met three times during the reporting period and focused mainly on issues relevant to the country's cooperation with IMF.

Brcko district

My office continued to provide expert assistance to the Brcko District authorities at their request in preparing by-laws and addressing issues relevant to the implementation of four key pieces of financial legislation adopted in June 2016, which aim to further integrate the Brcko District with the Bosnia and Herzegovina legal system, facilitate implementation of the Bosnia and Herzegovina economic programme negotiated with IMF, and empower the District with instruments for increasing fiscal transparency, fighting the grey economy and generating revenues. My office also continued to provide expert support to the Brcko District Finance Directorate in preparing a new law on budget.

In October, the Brcko District authorities sought the intervention of the Brcko District Supervisor and the assistance of my office over a threat of boycott of government sessions and then again over problematic legislative proposals related to police appointments. The engagement of the Supervisor and my Office with the relevant political parties and District officials helped the District government resume its work, while the police legislation was not pursued further. Moreover, my office oversaw the process of the selection and appointment of the Brcko District Deputy Police Chief, contributing to an orderly appointment.

In February, the Supervisor, with the support of my office, facilitated a possible compromise to unlock long-awaited progress on the Brcko Port modernization project, thereby reducing one cause of political tensions in the District and allowing for the disbursement of international financial assistance. There is also an ongoing concern over the potential continued non-implementation of the amendments to the Decision on Protection of Civilian Victims of War, which corrected discriminatory provisions for the victims of rape and sexual abuse in Brcko.

Although the Brcko District public utility company concluded a contract on 29 December with the Republika Srpska electricity provider on electricity supply to Brcko in 2018, the continued practice of last-minute agreements puts Brcko in a vulnerable negotiating position in securing continued electricity to its residents.

Entrenching the rule of law

Concerning the entrenchment of the rule of law in the areas of migration and asylum, my office continues to assist and support the Bosnia and Herzegovina authorities in implementing the 2015 Bosnia and Herzegovina Law on Foreigners and the 2016 Bosnia and Herzegovina Law on Asylum.

D. Electoral issues

Bosnia and Herzegovina Constitutional Court decision in the Ljubic case and the forthcoming general elections

As previously reported, in December 2016, the Bosnia and Herzegovina Constitutional Court found several provisions of the Election Law pertaining to the indirect election of delegates from the cantonal assemblies to the Federation House

of Peoples unconstitutional. Acting on a request from Bozo Ljubic (a former Bosnia and Herzegovina parliamentarian) to review these portions of the law, the Court also ordered the Bosnia and Herzegovina Parliamentary Assembly to correct the unconstitutional provisions within six months. Since the parliament did not do so, the Court deleted the provisions in a separate decision in July 2017.

The absence of these provisions of the election law regulating the election of delegates to the Federation House of Peoples could complicate the process of forming authorities at the Federation entity and Bosnia and Herzegovina state levels after the forthcoming general elections in October 2018. To begin with, until the Federation House of Peoples is constituted, the Federation entity parliament will not be able to pass legislation. Additionally, the Federation president and vice-presidents cannot be elected, since the Federation House of Peoples plays an important role in this responsibility. Without a Federation president and vice-presidents, a new Federation entity government cannot be nominated. Finally, the state-level legislature would also be affected, since the Federation House of Peoples elects some of the delegates to the second chamber of the state parliament, the Bosnia and Herzegovina House of Peoples.

Although a number of parties have proposed legislation during the reporting period to address the problem, none of these proposals were the result of consultation and negotiation between the Croat and the Sarajevo-based parties. Both sets of amendments were introduced without prior consultation and constituted more of a statement of maximalist positions than attempts at reaching a compromise. In November, the Social Democratic Party and Democratic Force proposed a new law at the Federation level to address the Federation House of Peoples issue, but this proposal also had little chance of adoption.

Given the urgency of the situation, the European Union and the United States embassy in Bosnia and Herzegovina have been facilitating talks between the political parties. This process has my support and the support of my Office. Nevertheless, the responsibility remains with the domestic political leaders, in particular the parties represented in the Bosnia and Herzegovina Parliamentary Assembly, to negotiate a solution that will enable the adoption of the necessary amendments to the Bosnia and Herzegovina Election Law. My office continues to closely follow developments regarding the implementation of the Ljubic case decision and its potential impact on the 2018 general elections and the process of government formation thereafter.

Kristo case pending before the Bosnia and Herzegovina Constitutional Court

The issue of elections to the Federation House of Peoples has been further complicated by a new request, from January 2018, submitted by the then-Chair of the Bosnia and Herzegovina House of Representatives, Borjana Kristo, challenging amendments to the Federation Constitution regulating elements of the election of delegates to the Federation House of Peoples. Although elements of this question are regulated in both the Federation Constitution and the Bosnia and Herzegovina Election Law, the Ljubic case only dealt with the law. The more recent request relates to one of the principles set forth by the Federation Constitution concerning the composition and selection of delegates of the Federation House of Peoples, which stipulates that, "in the House of Peoples there shall be at least one Bosniak, one Croat and one Serb from each Canton that has at least one such delegate in its legislative body".

At its 109th plenary session, on 22 March, the Bosnia and Herzegovina Constitutional Court completed a preliminary deliberation of the request (case No. U 4/18) and determined that it would decide on the case in a later plenary session. On 28 March, the Constitutional Court invited my office to provide written

observations with regard to the request in this case in an amicus curiae capacity, as the provisions in question were enacted by the High Representative in 2002 and were never subsequently adopted by the Federation Parliament. Although the minimum representation rule being challenged was part of the original Federation constitution enacted under the Washington Agreement, my predecessor extended this rule to apply to the Serb caucus of the House of Peoples in 2002, when the House was restructured to include Serbs and so-called "Others". It is the common practice of the court to invite my Office to provide an amicus curiae brief when it is deliberating on an issue affected by a previous decision of the High Representative.

E. Challenges to the General Framework Agreement for Peace in Bosnia and Herzegovina

Challenges to the sovereignty and territorial integrity of Bosnia and Herzegovina

During the reporting period, statements continued to be made that challenged the sovereignty and territorial integrity of Bosnia and Herzegovina. Republika Srpska President Milorad Dodik was again the most frequent exponent of such proclamations, which included calls for and predictions of Republika Srpska independence,[1] denials of the sovereignty of Bosnia and Herzegovina and references to the Republika Srpska as a State.[2] Statements were made by both the President of Republika Srpska, Milorad Dodik,[3] and the Croat member of the Bosnia and Herzegovina Presidency, Dragan Covic,[4] on the possible territorial reorganization of the Federation. Bosnia and Herzegovina House of Peoples delegate Mario Karamatic threatened the dissolution of the country if the electoral reform issues were not resolved.[5]

Glorification of war criminals and rejection of war crimes verdicts

Following the November 2017 conviction by the International Criminal Tribunal for the former Yugoslavia of former Republika Srpska military commander Ratko Mladic of genocide and other war crimes, the Republika Srpska President and other prominent political figures praised general Mladic as a "hero".[6] During the reporting period, the confirmation of earlier war crimes convictions against six former Croat military and political leaders in the *Prlic et al* case similarly resulted in

[1] "I guarantee that [Republika Srpska] independence will fall into our laps like a ripe apple. [Bosnia and Herzegovina] is unsustainable. If the [Republika Srpska] were to leave [Bosnia and Herzegovina] right now, we would not have any single problem to exist like an independent state. If I could make the [Republika Srpska] independent without any human casualties, I would go for it. My policy is to attain that goal by political means." Milorad Dodik, *Novosti*, 13 November 2017.

[2] "Today's gathering is a tribute to the [Republika Srpska]. The Serb people today have two states — Serbia and the [Republika Srpska]." Milorad Dodik, *Sputnik*, 9 January 2018.

[3] "I think that a third entity, which would have equal rights that the [Republika Srpska] and the Federation have now, would significantly strengthen the Croat position." Milorad Dodik, *Vecernji List*, 15 March 2018.

[4] "I am sure that we will achieve our equality. Will that be secured through three federal units or six, that's now a question of artistry. There must be an agreement. I can dream of a third entity. I can dream of some other organization ...." Dragan Covic, *Croatian TV 1*, "*Sunday at Two*", 17 December 2017.

[5] "Rest assured that if amendments to the Election Law do not come and if Croats are not able to elect their own representatives, that will be the end of [Bosnia and Herzegovina]". Mario Karamatic, *Direktno.hr*, 9 January 2018.

[6] "The verdict is not a surprise but will strengthen the attitude of the Serbian people that General Mladic is a hero and a patriot. In an impossible situation, he organized the [Republika Srpska] Army to save the Serbian people from genocide." Milorad Dodik, *N1*, 22 November 2017.

unfortunate revisionist statements from a number of Croat leaders, including the Croat member of the Bosnia and Herzegovina Presidency.[7] In January, the Croat majority in the Canton 10 Assembly adopted a "Declaration of the Croat people", which condemned the Tribunal's verdict in the case.

The fact that almost 25 years after the war in Bosnia and Herzegovina, senior political figures continue to deny the judgments of an international tribunal and glorify war criminals is extremely harmful for the process of reconciliation.

Inflammatory rhetoric about possible war scenarios

I am concerned about the recent readiness by some public figures to make irresponsible statements referencing the possibility of a return to conflict. In March, the leader of the Party for a Better Future, Fahrudin Radoncic, threatened war in case of the creation of a third entity.[8] More recently, significant controversy was caused by two statements by Bosniak presidency member Bakir Izetbegovic, describing in detail weapons production in the Federation and stating that such weapons were not only for export but to "respond" in case of a potential war scenario.[9] These statements followed similar comments reportedly made by the Federation Prime Minister.

Potential Republika Srpska referendum on the state judiciary and the authority of the High Representative

In November 2017, the Republika Srpska National Assembly repealed its 2015 decision to hold a referendum in the Republika Srpska on the validity of the legislation on the Bosnia and Herzegovina Court and Prosecutor's Office and the applicability of these institutions' decisions on the territory of that entity, as well as on the authority and decisions of the High Representative. However, at the same time the Republika Srpska National Assembly adopted conclusions to revisit the referendum in the future and on organizing a petition in the Republika Srpska on the same topics.

While the repeal of its previous decision is welcome, the conclusion to revisit the referendum at a later date is still of concern. While the Republika Srpska authorities have the right to organize referendums on matters falling within the constitutional responsibilities of the entity, a referendum on the issues at hand falls outside this authority and would constitute a challenge to the sovereignty of Bosnia

[7] "The verdict is a crime against every [Croatian Defence Council] officer and all Croat people and as such will not contribute to reconciliation in [Bosnia and Herzegovina], which is today most needed." Dragan Covic, *Oslobodjenje*, 29 November 2017.

[8] "I am telling him that, if he comes to Sarajevo, he should leave the idea of third entity in his suitcases in Banja Luka. At the price of a general war on the territory of the whole [Bosnia and Herzegovina], there will be no third entity. We do support compromise, we do support agreement, we do support talks with everyone and we do know how to talk, but everyone must know where are the boundaries below which we did not go even in 1992 and we will not do it now either." Fahrudin Radoncic, *Dnevni Avaz*, 16 March 2017.

[9] "We will consolidate our defence industry. We will manufacture mobile howitzers, we have already built a rifle, we will manufacture drones, we will consolidate the manufacture of all types of ammunition and rocket systems, etc. It is intended for the market, but also for any 'God forbid' scenario." Bakir Izetbegovic, *TV1*, 12 April 2018.
"Back in '92 people sold cows to buy. They paid three or four thousand marks for a rifle. Never again weak! This is the last time they do such a thing to us. We will make a mobile howitzer, we're actually already making it, the mobile personnel carrier, we have made the rifle and will make that good tactical one, the 12.7, multi-barreled rocket launchers of all possible calibres and all possible ammunition for them, and drones. And we will be like that little man who is not big but angry and well-armed, and let everyone think twice before they provoke him for no reason. It will never happen again that they knock on our doors and we have nothing to respond with." Bakir Izetbegovic, speech in Ahmici, [Bosnia and Herzegovina], *faktor.ba*, 16 April 2018.

and Herzegovina and a violation of the Republika Srpska commitments and obligations arising under the Bosnia and Herzegovina Constitution, as set forth in annex 4 and under annex 10 to the General Framework Agreement for Peace in Bosnia and Herzegovina. The Republika Srpska is not entitled to decide on these matters through referendum or otherwise.

Foreign fighters issue

During the reporting period, the relevant Bosnia and Herzegovina authorities have not reported new departures of their citizens from the country to the Syrian Arab Republic or Iraq. The authorities have announced that approximately 50 citizens have returned to Bosnia and Herzegovina from the Syrian Arab Republic or Iraq. According to the most recent information, the Bosnia and Herzegovina State Court has not issued any new judgments beyond the previously reported 23 judgments against individuals, of whom approximately 11 have already completed their sentences.

Radical extremism and potential terrorist threats

In April, acting on a warrant from the Bosnia and Herzegovina Prosecutor's Office, the Bosnia and Herzegovina State Investigation and Protection Agency arrested two people in the village of Gornja Maoca, near Tuzla in the Federation, under suspicion of the criminal offence of terrorism. The Bosnia and Herzegovina Prosecutor's Office reported that the State Investigation and Protection Agency found large quantities of weapons and flags of the Islamic State of Iraq and the Levant. Gornja Maoca is inhabited largely by Wahhabi Muslims and has been raided by the State Investigation and Protection Agency on previous occasions.

III. State-level institutions of Bosnia and Herzegovina

A. Bosnia and Herzegovina Presidency

Member of the Presidency of Bosnia and Herzegovina Dragan Covic chaired the Presidency throughout most of the reporting period. On 17 March, member Bakir Izetbegovic assumed the rotating position for the next eight months.

The Presidency met monthly during the reporting period, holding six regular and one urgent session, focused mainly on ensuring progress in the finalization of answers from Bosnia and Herzegovina to the European Commission questionnaire and fulfilling the conditions for activation of the NATO Membership Action Plan for Bosnia and Herzegovina. The Presidency also agreed on the 2018 state-level budget and adopted the country's foreign policy strategy for the next five years. The Presidency paid official collective visits to Serbia and the Vatican, while individual members also visited Serbia, Croatia and Turkey.

Presidency members had divergent comments and interpretations concerning the November 2017 convictions of wartime Serb military commander Ratko Mladic and six former Croat political and military leaders by the International Criminal Tribunal for the former Yugoslavia. The three members also continue to voice differing positions on major issues concerning Bosnia and Herzegovina relations with neighbouring States, such as the Peljesac Bridge project of Croatia and the demarcation of Bosnia and Herzegovina borders with Serbia.

Nonetheless, in March the Bosnia and Herzegovina Presidency held an historic trilateral meeting with Serbian President Aleksandar Vučić and Croatian President Kolinda Grabar-Kitarović in Mostar. Participants announced another trilateral meeting in Novi Sad, Serbia, in the future.

B. Bosnia and Herzegovina Council of Ministers

The Bosnia and Herzegovina Council of Ministers met regularly throughout the reporting period, holding 21 regular sessions and one telephone session. However, a lack of parliamentary majority support persistently hindered its work, as exemplified by the fact that more than a third of all laws adopted by the Council were subsequently rejected in parliament.

The Council of Ministers' main priorities remained European Union-related issues, including the finalization of responses to the European Commission questionnaire, which were handed over to Commission representatives on 28 February, 15 months after its delivery by the Commission to the Bosnia and Herzegovina authorities, on 9 December 2016.

During the reporting period, the Council of Ministers adopted 12 sets of amendments to existing legislation, including a crucial set of excise tax laws and amendments to the Law on the Intelligence-Security Agency of Bosnia and Herzegovina, and two new laws, the 2018 state budget and the Law on Bank Deposit Insurance, which was later withdrawn from parliamentary procedure. After considerable delay, the Council of Ministers adopted the 2018–2021 Rural Development Strategy, which was also adopted by the Bosnia and Herzegovina Parliamentary Assembly. The Council of Ministers adopted its 2018 workplan and numerous strategies and action plans.

In December, the Council of Ministers adopted a decision on temporary financing, due to the Parliamentary Assembly's failure to adopt the 2018 state budget on time. In February, the Council of Ministers adopted a decision on withdrawing the second tranche of funds from the IMF Extended Fund Facility.

C. Bosnia and Herzegovina Parliamentary Assembly

The lingering political dysfunction in the country continued to have an impact on the functionality and quality of the Parliamentary Assembly's legislative output in the reporting period. This is particularly true in the case of the House of Representatives, which in two instances needed over a month and a half to complete individual sessions.

Although a parliamentary majority coalition composed of the Party for Democratic Action, the Party for a Better Future, the Croatian Democratic Union of Bosnia and Herzegovina and the Republika Srpska Alliance for Change parties — the Serbian Democratic Party, the Party of Democratic Progress and National Democratic Movement — formally exists, it functions only on a case-by-case basis, with individual delegates increasingly acting independently, depending on the issue. Moreover, the position of the Party for Democratic Action in the Bosnia and Herzegovina House of Representatives has been weakened by delegates leaving the party to join the Independent Bloc, a party formed by former Party for Democratic Action members, while the Serbian Democratic Party is also losing members. In the House of Peoples, a former Serbian Democratic Party delegate formed his own party.

In December 2017, the parliament finally adopted a set of excise tax legislation required for the completion of the first review under the IMF Extended Fund Facility. In late January, the parliament adopted the 2018 State budget.

During the reporting period, the House of Representatives held eight regular sessions and the House of Peoples held five regular and two urgent sessions. Cumulatively, the Parliamentary Assembly adopted 12 pieces of legislation, which, except for the 2018 state budget and the Law on Parliamentary Oversight, were in the

form of amendments to existing legislation, and rejected 14 laws, 3 of which were proposed by the Bosnia and Herzegovina Council of Ministers and the remaining 11 by parliamentary delegates.

IV. Federation of Bosnia and Herzegovina

Federation coalition developments

The Federation Government worked consistently throughout the reporting period, holding 15 regular and 25 extraordinary sessions. However, disagreements over proposed legislation continued within the ruling majority coalition composed of the Party for Democratic Action, the Party for a Better Future and the Croatian Democratic Union of Bosnia and Herzegovina, with the Federation Parliament adopting only three new laws and nine sets of amendments to existing legislation. In November, the Party for a Better Future threatened to leave the ruling coalition by the end of the year, but did not follow through on this threat.

The low legislative output in the Federation reflected stagnation in the Federation Parliament, with the Federation House of Representatives holding just one regular session, one thematic session and seven extraordinary sessions, and the Federation House of Peoples holding five extraordinary sessions during the reporting period. In December, delegates from the Croatian Democratic Union of Bosnia and Herzegovina and Croatian Democratic Union 1990 parties walked out of a session of the Federation House of Representatives after delegates from other parties adopted a proposal to remove ethnic prefixes from the names of public companies in the Federation.

In March, Federation President Marinko Cavara (of the Croatian Democratic Union of Bosnia and Herzegovina) organized three consecutive meetings with coalition representatives in the Government and the parliament aimed at overcoming the gridlock, with little result. Notably, the Party for Democratic Action declined to attend the third meeting.

No agreement on enabling local elections in Mostar, but positive developments

The responsible political parties had still not reached agreement to enact amendments to the Bosnia and Herzegovina Election Law that would enable the holding of local elections in the city of Mostar, where there have been no local elections since 2008. Representatives of nine political parties have held a series of meetings in Mostar since February, at which they appear to have made some initial progress. However, by all accounts, significant areas of disagreement remain. Nevertheless, the fact that a serious domestically led process is under way is encouraging, and I urge the parties to reach a compromise that would enable the citizens of Mostar to enjoy the same democratic right to elect their local leaders as the citizens in the rest of the country.

The constitutional status of Serbs in the Federation cantons

Over the past year, I have repeatedly urged the leadership of the Herzegovina-Neretva Cantonal Assembly to act to harmonize the canton's constitution with the Federation Constitution in order to ensure the constitutional equality of all three constituent peoples, specifically the Serb people. The canton's constitution does not explicitly reference Serbs as a constituent people or contain provisions providing for the use of the Serb language as an official language or Cyrillic as an official script. Herzegovina-Neretva Canton has been under an obligation to amend its constitution in this regard since 2002, when the High Representative used his executive authorities

to amend the Federation Constitution in the same manner. Similar obligations remain in Posavina Canton and West Herzegovina Canton.

With the Federation cantons having failed to act, in February the Bosnia and Herzegovina House of Representatives took the unprecedented measure of adopting an initiative calling upon the authorities in the cantons to adopt the requisite changes to their constitutions within 30 days. Subsequently, House of Representatives Deputy Speaker Mladen Bosic, of the Serbian Democratic Party, filed a motion with the Bosnia and Herzegovina Constitutional Court for a review of constitutionality of the provisions of five cantonal constitutions (four Croat-majority cantons plus the Bosnian Podrinje Canton Gorazde) that he stated do not recognize the constituent status of the Serb people, the Serb language and the Cyrillic script. He stressed that provisions in some cantonal constitutions stipulate that only Bosniaks and Croats are constituent peoples and that the official languages are Bosnian and Croatian.

In April, the Bosnian Podrinje Cantonal Assembly's constitutional-legal committee held a session to discuss Bosic's claims, deeming them unfounded, as the canton had amended its constitution in 2003, adding references to Serbs as a constituent people, the Serb language as an official language and Cyrillic as an official script.

War veterans' protests

In February, veterans of the former army of Bosnia and Herzegovina and Croatian Defence Council blocked several vital intersections near major towns in the Federation, significantly disrupting traffic, making several demands of the authorities, including allowances for unemployed veterans and the establishment of single registry of veterans' associations. In protests in front of the Federation Parliament in April, veterans threatened violence against police. The Federation authorities face significant financial challenges due to the demands of the veteran population.

V. Republika Srpska

During the reporting period, the Republika Srpska ruling coalition, led by the Alliance of Independent Social Democrats in partnership with the Democratic People's Alliance and the Socialist Party of Republika Srpska, remained functional, with the Republika Srpska government meeting regularly. According to available information, the Republika Srpska National Assembly held two regular and two special sessions, adopting six new laws and 16 sets of amendments to existing laws. In late March, the same parties signed a coalition agreement for the 2018 general elections.

Following a series of chaotic sessions of the Republika Srpska National Assembly in the previous period, which were disrupted due to harsh disagreements between ruling coalition delegates and delegates from the opposition Alliance for Change parties, in November the two sides agreed to form a joint commission aimed at drafting an agreement on relations in the National Assembly. However, no agreement was reached, and the opposition parties left the commission in December. As the 2018 general elections approach, the power struggle between the two sides is intensifying, with the ruling coalition accusing the opposition of betraying Republika Srpska interests at the state level and the opposition accusing the ruling coalition of corruption and nepotism.

As described in further detail above, in November the Republika Srpska National Assembly repealed its 2015 decision to organize a referendum on "the

unauthorized and unconstitutional imposition of laws by the High Representative, especially the laws on the Bosnia and Herzegovina Court and Prosecutor's Office and their application on Republika Srpska territory", as well as the accompanying decision regulating the appointment of a referendum commission.

Later in November, the Republika Srpska Ministry of the Interior signed a contract with an arms manufacturer in Serbia to purchase 2,500 long-barrel automatic rifles for the Republika Srpska police, along with 1.5 million rounds of ammunition. This prompted concerned local and international media coverage. The purchase of such military-grade weapons and exorbitant amounts of ammunition, along with an earlier purchase, reported by the European Union-led peacekeeping force (EUFOR), of 1,400 similar weapons, is beyond accepted international standards for a police force of approximately 5,000.

In January, the Republika Srpska continued its observance of 9 January as the "Republika Srpska Day" holiday in contravention of a number of decisions by the Bosnia and Herzegovina Constitutional Court. Further tainting the observation of the holiday was the presence in the official "Republika Srpska Day" parade of members of the so-called humanitarian organization from Serbia, "Serb Honour", in full military gear. Local and international media alleged that the group is actually a gang of criminal mercenaries, and the Republika Srpska opposition parties condemned their participation in "Republika Srpska Day" events.

Of similar concern was the March visit to the Republika Srpska of the controversial Russian Night Wolves motorcycle club, apparently at the invitation of the Republika Srpska government. Since December 2014, the Night Wolves club and its leader (who was not part of the group that visited) have been under sanction by the United States Treasury Department for "engaging in ... actions or policies that threaten the peace, security, sovereignty, or territorial integrity of Ukraine". This event, following the "Serb Honour" issue, prompted the Republika Srpska opposition to express concerns that the Republika Srpska authorities were attracting such organizations to use as intimidation during the 2018 electoral campaigns.

Law on Republika Srpska Day challenged before the Bosnia and Herzegovina Constitutional Court

As previously reported, in September 2016 the Republika Srpska authorities held a referendum on the observance of the "Republika Srpska Day" holiday on 9 January, against two decisions of the Bosnia and Herzegovina Constitutional Court, including an interim injunction from the Court against holding the referendum. The Court later confirmed that the referendum had been unconstitutional and annulled its results.

Nevertheless, in October 2016, the Republika Srpska National Assembly adopted the Law on Republika Srpska Day, intended to implement the results of the referendum conducted in violation of the Bosnia and Herzegovina Constitutional Court's decisions. In January 2018, Bosniak and Croat delegates in the Republika Srpska Council of peoples challenged the constitutionality of the Law on Republika Srpska Day.

On 9 January 2018, despite the decisions by the Bosnia and Herzegovina Constitutional Court clearly determining that the designation of 9 January as the "Republika Srpska Day" public holiday is unconstitutional, Republika Srpska authorities observed the holiday throughout the entity. The main event in Banja Luka included a parade of police and civil protection services, sports associations and others. Unlike the previous year, the 3rd Infantry Regiment of the Bosnia and Herzegovina armed forces did not participate.

Non-cooperation with the High Representative

The Republika Srpska government continues to deny my Office access to official information and documents as required under annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina. Article IX of annex 10 obliges all authorities in Bosnia and Herzegovina to fully cooperate with the High Representative. Repeated calls by the Peace Implementation Council Steering Board reminding the Republika Srpska authorities of their obligations in this regard have had no impact. The practice of the Republika Srpska government of not providing information and documents as requested by the Office of the High Representative dates to 2007 and contradicts frequent Republika Srpska claims that the entity respects the letter of the General Framework Agreement.

VI. Entrenching the rule of law

Conclusions of the Bosnia and Herzegovina High Judicial and Prosecutorial Council

On 26 October, the Bosnia and Herzegovina High Judicial and Prosecutorial Council adopted conclusions based on information submitted by the Republika Srpska Ministry of Justice's centre for research on war, war crimes and search for missing persons. One of the conclusions called for the extraordinary dismissal of judges and prosecutors without appropriate disciplinary proceedings. These conclusions, coming from the very institution responsible for developing, protecting and promoting judicial independence, were assessed as not reflecting the meaning and purpose of an independent judiciary and instead channelling external undue pressure and influence. As such, they provoked public outcry and strong reactions from the international community. After a prolonged debate, on 27 November the High Judicial and Prosecutorial Council issued a new set of conclusions that instead aim to implement recommendations stemming from the European Union peer review process and to obtain adequate information on best practices in vetting judges and prosecutors.

Constitutional Court decision on the Bosnia and Herzegovina Criminal Procedure Code

In early February, the Bosnia and Herzegovina Constitutional Court added to its agenda the issue of the non-enforcement of a decision of the Court from July 2017 finding several provisions of the Bosnia and Herzegovina Criminal Procedure Code and Law on the Intelligence-Security Agency of Bosnia and Herzegovina unconstitutional. As the six-month deadline set by the Court for the Bosnia and Herzegovina Parliamentary Assembly to correct these provisions had passed, the Court was poised to put those provisions out of force.

Because the provisions of the Bosnia and Herzegovina Criminal Procedure Code in question regulate essential aspects of criminal procedure, their repeal without appropriate new provisions adopted would essentially void up to 100 ongoing cases of crime and corruption, and call into question the raising of any new cases by the Bosnia and Herzegovina Prosecutor's Office. For example, the provisions in question regulate when special investigative measures such as communications interception or controlled delivery are permitted and when immunity may be granted in exchange for testimony, as well as certain aspects of the duration of investigations. They also include a general provision that serves as the legal basis for raising an indictment in all cases.

Despite these risks, the Bosnia and Herzegovina Ministry of Justice, as the competent ministry for the Criminal Procedure Code, did not finalize its proposed amendments to address the Court's decision until after the six-month deadline had

already passed. Moreover, what was finally proposed by the Ministry does not enable the exercise of the full extent of state-level jurisdiction in criminal matters and is not fully aligned with international standards.

In late April, the Bosnia and Herzegovina House of Representatives finally adopted, in an urgent procedure, amendments to the Criminal Procedure Code proposed by the Party for Democratic Action and supported by most Federation-based parties, with the notable exception of the Croatian Democratic Union of Bosnia and Herzegovina. These amendments were consistent with international standards and sufficient to correct the issues identified in the Criminal Procedure Code by the Constitutional Court. As of this report, a further decision by the House of Representatives to submit the amendments to the House of Peoples for adoption is pending.

Concurrently, the House of Peoples is considering amendments to the Criminal Procedure Code proposed by the Croat caucus of the House, which limit the special investigative measures and would hinder the State's ability to exercise its criminal jurisdiction over offences prescribed by the criminal codes of the entities and the Brcko District in instances when such offences endanger the State. I must express my concern that this proposal clearly aims to limit the authority of the Bosnia and Herzegovina judiciary in criminal matters, including corruption, and to weaken the State.

These developments indicate a lack of interest at best by some political parties to resolve the issue in line with international standards, and an interest in undermining the ability of the state-level judiciary to fight organized crime and corruption.

Entity anti-corruption efforts

The specific legislation in the Federation on a special prosecutor and court department for fighting corruption and organized crime, which was passed in 2014, remains unimplemented.

VII. Public security and law enforcement, including intelligence reform

The practice of improper political interference in operational policing has not diminished in the reporting period. Authorities in Tuzla Canton, despite earlier resistance to adhering to the basic standards of the rule of law, have begun the technical process of ensuring the financial independence of the police. Una-Sana Canton has completed the technical steps required to ensure the legal and financial independence of the police for the 2018 budget year.

Posavina Canton, Canton 10 (after a three-year delay) and Tuzla Canton have appointed new police commissioners. In January, the selection procedure began for six of the seven state-level police directors and deputy directors, and the appointment process is still under way. The appointment of the Federation independent board for police remains outstanding since 2015, despite my warning to the Federation Parliament to comply with the law and complete the appointment. The mandate of the Bosnia and Herzegovina Independent Board ended in March 2018. The appointment procedure for the Independent Board in Herzegovina-Neretva Canton remains stalled since March 2017. Sarajevo Canton and Una-Sana Canton appointed new independent boards in February and March of 2018, respectively.

Weapons purchases by police

During the reporting period, significant controversy arose over the purchase by the Republika Srpska police of 2,500 new military-grade long-barrelled weapons from a manufacturer in Serbia. Republika Srpska followed the legal procedure required for importing the new weapons, but the incident drew attention to the purchase and to reported purchases by other police agencies of similar weapons, provoking concern that police forces in Bosnia and Herzegovina are "rearming". In March, EUFOR requested all 16 police agencies in Bosnia and Herzegovina to provide information on their respective holdings of long-barrelled weapons, and by April had received information.

VIII. Economy

The 2017 economic performance of Bosnia and Herzegovina was generally positive. Based on available indicators, real gross domestic product growth was estimated at 2.7 per cent, the same as in 2016. Exports and imports registered an increase of 17.4 and 12.2 per cent, respectively, while industrial production increased by 3.1 per cent. Of note is a 60.8 per cent increase in foreign direct investments in the first nine months of 2017 compared with the same period in 2016.

Employment data for December 2017 shows improvement, with a 2.8 per cent increase in registered employment and a 6.85 per cent decrease in registered unemployment. According to official statistics, there are 753,202 employed persons and 475,084 unemployed persons in Bosnia and Herzegovina, while the administrative unemployment rate is 38.7 per cent. The number of pensioners increased by 0.9 per cent and totals 673,100 persons. The most recent Regular Economic Report by the World Bank Group notes a significant drop in unemployment, including youth unemployment, which dropped from 54.3 in 2016 to 45.8 per cent in 2017. However, the report explains that, unlike in neighbouring countries, the decline in Bosnia and Herzegovina was driven by a combination of higher employment and lower labour force participation, indicating the impact of emigration on the country's unemployment estimates. Income levels in December 2017 show no major change compared to those in December 2016: the average net salary amounted to 862 KM, a 1 per cent increase, and the average pension amounted to 364 KM, a 1.5 per cent increase.

Regardless of statistical progress, unemployment figures remain high, and income levels fall well short of the monthly estimated consumer basket. Data showing 16.9 per cent of households living in poverty is of serious concern.

Economic ratings in the reporting period also point to areas in which significant improvement is needed. The World Bank's "Doing business" report for 2018 ranked Bosnia and Herzegovina 86th of 190 economies in terms of ease of doing business, the lowest rating of all Balkan countries. The Heritage Foundation's Index of Economic Freedom for 2017 ranked Bosnia and Herzegovina 91st of 180 countries globally and 38th of 44 countries in Europe, with the overall score below the regional average and just above the world average. Transparency International's Corruption Perceptions Index for 2017 ranked Bosnia and Herzegovina as 91st of 180 countries, eight places down from the previous year. The country's credit rating remains "B with stable outlook", as confirmed by Standard & Poor's on 9 March.

The banking sector is assessed as generally stable and liquid and should be further strengthened following the adoption of a new state-level Law on Deposit Insurance as part of Bosnia and Herzegovina commitments under the IMF Extended Fund Facility arrangement. According to the entity banking agencies, 14 banks in the

Federation and 7 banks in the Republika Srpska registered net profits in the first nine months of 2017, while 2 banks — 1 in each entity — reported losses.

Fiscal issues

The overall fiscal situation is relatively stable, mainly due to the continued growth of indirect tax revenues, domestic borrowing and international financial assistance.

In 2017, the Bosnia and Herzegovina Indirect Taxation Authority registered another annual record collection of indirect tax revenues, totalling 7.04 billion KM, a 6.1 per cent increase over 2016. The positive trend continued in 2018, with a 13.2 per cent increase in the first two months over the same period in 2017.

On 9 February, IMF completed the first review of the country's economic performance under the Extended Fund Facility arrangement (totalling 553.3 million Euro) and disbursed its second tranche in the amount of 145.8 million KM (97.2 million KM to the Federation and 48.6 million KM to the Republika Srpska). The completion of the first review was possible following the completion of all prior actions by Bosnia and Herzegovina authorities, including the 15 December adoption of state-level legislation increasing excise taxes on fuel.

The adoption of 2018 budgets extended beyond 2017 for most levels of government in the country. The Bosnia and Herzegovina Parliamentary Assembly adopted the 2018 state budget on 25 January. The adopted budget totals 1.954 billion KM, of which 950 million KM — the same amount as in the last six years — is planned for the state institutions, and 1.004 billion KM — 7 million KM less than in 2017 — is planned for foreign debt servicing. The state institutions' finances raise a few concerns. The budget has been fixed at the same level since 2012, as has the State's share in indirect tax revenues, which accounts for over 80 per cent of the State's revenue. Additionally, the State's revenue from other sources shows a continued decline. Consequently, the 2018 state budget shows a deficit of 60.2 million KM, to be covered by the 2017 surplus. It must be underlined that the amount available to the state institutions allows them to cover basic current expenditures, but it is insufficient to allow them to function at maximum capacity and fulfil their obligations.

The Federation budget was adopted on 19 January at 2.882 billion KM, a 6 per cent increase over the rebalanced 2017 budget. Domestic revenues are planned in the amount of 2.269 billion KM (a 6.8 per cent increase), while the 613 million KM deficit (a 35.4 per cent increase) is to be covered by domestic and foreign borrowing. Unlike in previous years, the Federation budget includes a significant allocation (250 million KM) for capital investments in road construction. At the same time, the amount needed for the Federation total debt payment (1.11 billion KM) and interest on borrowing (124.9 million KM) is as high as 54 per cent of total domestic revenues planned in this year's Federation budget, and is cause for concern.

The stability of the Federation pension and disability insurance fund was the key motive for the parliamentary adoption of a new Law on Pension and Disability Insurance on 25 January. Key changes include: an increase of pensions by 10 per cent and 5 per cent for those who retired before 31 July 1998 and 31 December 2007, respectively; a pension calculation scoring system based on years of service; minimum retirement limits; incentives for late retirement; and the harmonization of pensions with costs of living. Minimum and guaranteed pensions will remain the same. A significant change for pensioners is that payments will be guaranteed by the Federation budget following the integration of the Fund into the treasury system within two years. The fiscal implications of foreseen changes on the budget and the pension fund have not been fully analysed.

The Federation faces continued challenges due to the demands of war veterans. Allocations to veterans from the Federation, cantonal and municipal budgets are substantial, totalling approximately 650 million KM in 2017 (of which 570 million KM came from the Federation budget). The total budgetary funds allocated to veterans since the end of the war is estimated at approximately 11 billion KM. New demands include a registry of all participants in the war, monthly allowances for unemployed demobilized veterans, and the streamlining of veteran associations.

The fiscal situation at the cantonal level shows improvement. All 10 Federation cantons have adopted their 2018 budgets, 8 of them having done so before 31 December. The 2018 budget is also in place in the city of Mostar, after it was proclaimed by the mayor in agreement with the head of the Finance Department, in accordance with an exceptional amendment to the Federation Law on Budgets adopted by the Federation Parliament. The proclaimed budget amounts to 59.9 million KM, a 9 per cent increase over the 2017 rebalanced budget. Brcko District adopted its budget on 26 March, just ahead of the 31 March deadline, in the amount of 243.98 million KM, a 1.3 per cent decrease from the rebalanced 2017 budget.

International obligations and other issues

On 14 December, the Energy Community Ministerial Council expressed its regret over the continued lack of progress by Bosnia and Herzegovina in the implementation of its obligations under the Energy Community Treaty. This was due to entity disputes over regulating certain aspects of the gas sector at the state level. The Energy Community sanctions against Bosnia and Herzegovina, introduced in October 2015, have thus far had no effect on resolving the disputes.

The Bosnia and Herzegovina Public Railways Corporation faces financial constraints for the second consecutive year due to the unilateral decision of the Republika Srpska to restrict its financing. Such a move could seriously threaten the stability of the only corporation established thus far under annex 9 of the General Framework Agreement for Peace in Bosnia and Herzegovina, and which is crucial for proper coordination and harmonization of the railway sector. This is in addition to the threat posed by the current 16 March 2017 conclusion of the Republika Srpska government requesting the Republika Srpska Ministry of Transport and Communications to initiate a review of the agreement between the Federation and the Republika Srpska on the establishment of a joint public railway corporation as part of the transportation corporation, concluded in 1998 under annex 9 of the General Framework Agreement for Peace in Bosnia and Herzegovina.

IX. Return of refugees and displaced persons

The realization of the right of refugees and displaced persons to return to their pre-war homes remains central to the fulfilment of the provisions of annex 7 of the General Framework Agreement for Peace in Bosnia and Herzegovina, as it requires authorities at all levels "to create in their territories the political, economic, and social conditions conducive to the voluntary return and harmonious reintegration of refugees and displaced persons, without preference for any particular group".

Education remains a contentious issue in several returnee communities in Bosnia and Herzegovina. The Republika Srpska authorities continue to refuse to acknowledge the right of Bosniak returnee schoolchildren to refer to their language as "Bosnian" in accordance with a 2016 decision of the Bosnia and Herzegovina Constitutional Court, opting instead for the selective application of a provision of the Republika Srpska constitution referring to "the language of the Bosniak people" while

referring to the language of the other two constituent peoples as "Serbian" and "Croatian". At the start of the spring semester, this issue triggered protests and student boycotts in returnee communities around Zvornik.

At the same time, Serb returnee students in the Federation, particularly in the Croat-majority Canton 10, continue to demand the introduction of the Serbian language in their education, without success.

X. Media developments

Biased and politically influenced reporting continues to plague the three public broadcasters, the independence of which is compromised by problems in financing, reluctance to implement legal requirements for system integration and politicized appointments to management. As a result of the rise in destabilizing and divisive public rhetoric and reporting throughout the country, this problem is becoming more acute.

With regard to financing, two of the three public broadcasting services within the Bosnia and Herzegovina public broadcasting system (Radio-televizija Bosne i Hercegovine and Radio-televizija Federacije Bosne i Hercegovine) have partially addressed financing problems through an agreement that the Sarajevo-based electricity supplier will collect radio-television tax. However, the financing system remains imbalanced, as the Republika Srpska broadcaster is not part of this arrangement, nor are the other two electricity suppliers, while some politicians in Croat-majority areas urge citizens not to pay the tax, contrary to relevant legislation.

Problems also exist in implementing relevant legislation concerning the registration of a joint legal entity, the goal of which is to enable the transfer from analogue to digital broadcasting for the Bosnia and Herzegovina public broadcasting system and to serve as a joint digital network operator.

Thus, due to the inability of the public broadcasters to act outside political influence and the lack of will among the political parties in power to allow the proper implementation of relevant legislation, the public broadcasting system exists only on paper. This is unfortunate, as the current legislation represents a solid legal base for a proper public broadcasting system that would serve the interests of the Bosnia and Herzegovina citizens in accordance with generally accepted programming principles.

XI. European Union military force

The European Union military mission in Bosnia and Herzegovina, EUFOR, with its continued executive mandate, plays a vital role in supporting the country's efforts to maintain a safe and secure environment, which significantly contributes to the ability of my Office and other international organizations to fulfil our respective mandates.

XII. Future of the Office of the High Representative

The political directors of the Peace Implementation Council Steering Board met in Sarajevo on 7 and 8 December 2017 to assess progress in implementing the General Framework Agreement for Peace in Bosnia and Herzegovina and underlined their unequivocal commitment to territorial integrity and sovereignty of Bosnia and Herzegovina, and their full support to me as the High Representative in ensuring respect for the Agreement and carrying out my mandate in accordance with annex 10

thereof, and relevant Security Council resolutions. The political directors reinforced the need to complete the 5+2 agenda, which remains necessary for the closure of the Office. The next meeting of the Peace Implementation Council Steering Board is scheduled for 5 and 6 June 2018 in Sarajevo.

My Office continues its fiscally responsible approach to budget planning, and the results are evident. Since the beginning of my mandate in March 2009, the Office's budget has been reduced by 53 per cent and my staff by over 58 per cent. Given the deep and ongoing nature of the cuts, it is important to highlight that, considering the realities of the situation on the ground and as entitled under annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina, I must remain equipped with the budget and the staff required to carry out my mandate effectively.

XIII. Reporting schedule

In keeping with the practice of submitting regular reports for onward transmission to the Security Council, as required by Security Council resolution 1031 (1995), I herewith present my nineteenth regular report. I would be pleased to provide additional information should the Secretary-General or any Council member require it at any time. The next regular report to the Secretary-General is scheduled for October 2018.